The Heart of a Budgets

Budgets—written lists of income and expenses—let both adults and kids establish priorities and control spending, and these habits will ultimately result in saving money.

Most budgets include two categories of expenses—non-discretionary and discretionary. Non-discretionary expenses are necessities: rent or mortgage, insurance, telephone, heating and credit card bills. Discretionary expenses include vacations, leisure activities, new clothes and car or home maintenance.

A budget lies at the heart of any family's financial plan. It takes a long time and a good deal of effort to establish a budget that really works, but the result is worth it. Most financial planners suggest taking an "easy does it" approach to making a family budget and financial plan, including savings. A good way to start is by keeping a simple list every month of money that comes in and goes

SUCCESS PRINCIPLE #5: Positive Parent Talk—Fiscal fitness is not an accident.

Talking about things can make them seem possible, depending on what you say and how you address the issue.

Speak from the heart—if your kids make a decision you would like them to repeat, praise them for it. This is effective for teaching fiscal fitness. For example: "Because you took such good care of your backpack this year, I think you will be able to use it again next year. That means, with the money we saved, I can get you an extra pair of jeans (or a baseball mitt, ballet shoes, new microscope)."

Be precise and clear with your comments.

If you want to comment on something you are not happy about, stay away from remarks that create fear such as, "You are a bad boy/girl." Statements like this make it difficult for children to tell if you are talking about their behavior or their character. Fear motivates only in the short-term; desire motivates in the long-term.

Financial Plan

out of the home. You can work together as a family to develop your financial plan.

Budgeting is a lot like teaching kids any skill. Keep things simple at first and build gradually, instead of trying to do it all at once.

Once your family understands how it spends its money, you can begin to factor in savings. Many families find it especially helpful to make savings a top priority and put aside some money before spending it on any items. Many familes identify savings for particular goals -- college, a down payment on a house or automobile, a vacation, or retirement.

Seeing you pay bills and keep track of what you spend and save helps your kids understand the distinction between needs and wants (see p. 7), and makes them think about what is most important to them.

To encourage your family to save, hang a picture of the item they are saving for on a bulletin board or the refrigerator. This will keep everyone focused on the goal.

As kids mature, you can give them increased control over their spending and saving decisions. This may mean letting them make bad decisions without "bailing them out" when they overspend.

SUCCESS PRINCIPLE #6: Give and respond to feedback.

Actively seek, respond to and offer feedback to family members.

Change and new ideas seem strange at first. Keep an open mind.

Acknowledge family members who help you along the way.

Don't have too many advisors.

Encourage children to listen and give their input.

Increasing Savings and

How can you increase family financial resources? Savings and investments are the key to a well-kept budget.

Your family has a variety of investment choices. Bank and credit union savings accounts are one alternative. Mutual funds that buy stocks and bonds are another. Other choices include whole life insurance policies and annuities that can be set up as part of savings plans in which monthly deductions are made from paychecks or checking accounts.

Allowing kids to see how savings can increase is a good lesson in thrift and investment. Kids can start out with piggy banks and work up to bank savings accounts. These savings plans can be used to help finance their long-term needs, such as college tuition.

Chart the progress of savings to show how your family's money grows over time.

SUCCESS PRINCIPLE #7: Plan your future.

Your family future can be divided into financial and non-financial areas. Your interests, skills, future capabilities and your character create your non-financial assets, which have a direct impact on how you spend, save, plan for the future, and budget.

Commit to a realistic budget that coincides with your family vision.

Talk to your kid about the future—whether it's planning and saving for college, saving for a new home, or budgeting for a family vacation. Setting goals helps you make your vision a reality.

Have children keep a journal or log of their savings and spending decisions and record their thoughts about managing money.

Keep a jar in the kitchen and put small change in it every day. As the jar fills, children learn the first steps toward savings.

Reward actions that lead to the accomplishment of family goals.

Investment

Understanding Interest

Understanding interest is another important part of your family's financial education.

When your child has learned to multiply, it's time for you to explain the basics of interest. Interest -- the cost of borrowing or lending money -- is expressed as a percentage of the amount involved. This amount is known as the principal.

For example, if you borrow $1,000 (principal) at 10 percent (interest rate) for one year, you must pay back $1,100 -- the $1,000 borrowed and $100 in interest.

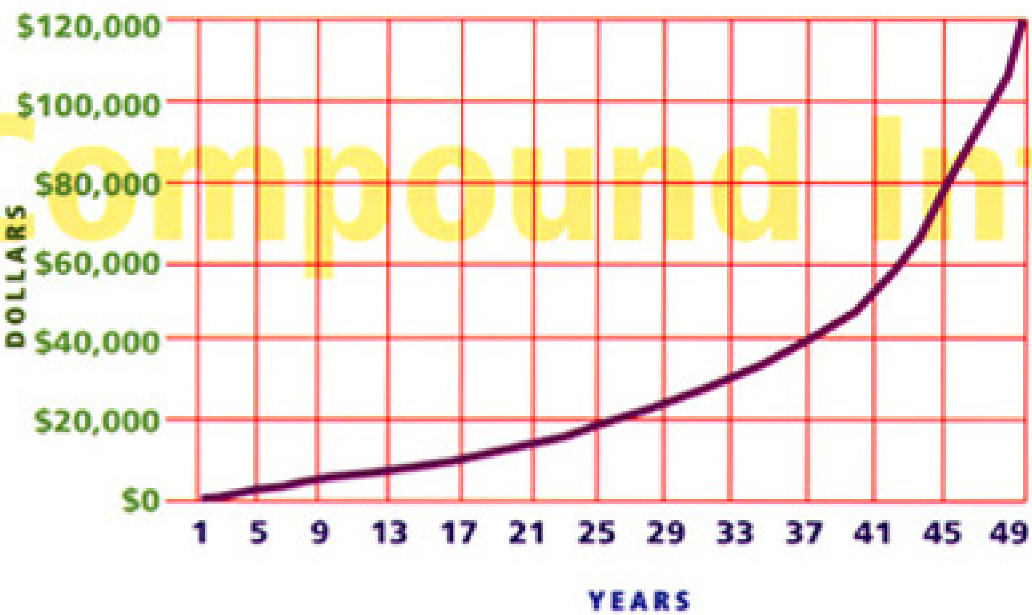
If you borrow money for two years, you will probably have to pay a higher rate of interest. This is because more can go wrong over a longer period of time, and that means a greater risk for the lender. If the interest rate were 13 percent for a two-year loan, the borrower would have to pay the lender $130 each year, in addition to the $1,000 principal.

When you open a bank account, you are, in effect, lending money to the bank. The bank pays you (the depositor) interest and lends the money to someone else at a higher rate. This is how the bank makes a profit.

Interest charges often vary for consumer credit, credit cards, store credits and mortgages. If interest rates go up, borrowers have to pay more. If they go down, less. The same holds true for savings accounts: if interest rates rise, the savers earn more on their money; if they fall, savers earn less.

Pay close attention to interest rates on credit obligations you and your family have. Sometimes when there is a high interest rate charged for a credit purchase, a "good deal" turns out to be a bad deal when you add up all the interest payments.

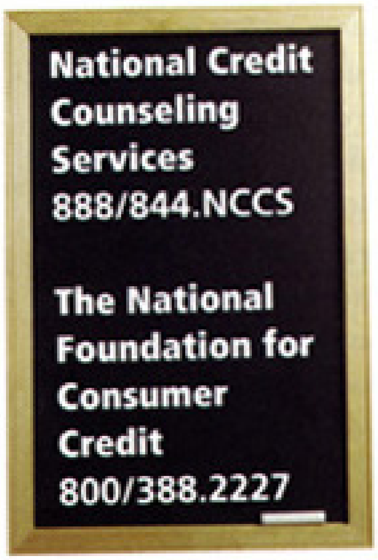
Compound Interest



Based on a weekly $5 contribution at a 7% annual interest rate, compounded monthly over 50 years.

Increasing Savings and

Credit and Debt Counseling Services



Credit can sometimes become a problem for families. If this happens to you, there are many organizations that can help you manage credit wisely. They specialize in credit counseling for individuals and families and offer debt consolidation services.

Credit and debt counseling organizations keep your financial information confidential. Creditors generally see contacting a credit counseling service as a positive step. Because creditors support budget and debt counseling through voluntary contributions, these services are available at little or no cost to consumers.

National Credit Counseling Services (NCCS)
is a nonprofit community service organization offering free, confidential and professional debt management and educational programs to consumers nationwide. NCCS is dedicated to helping financially distressed individuals and families effectively manage their personal finances. The NCCS can be reached by calling 888/844.NCCS.

The National Foundation for Consumer Credit (NFCC)
is the national umbrella organization for 1,300 non-profit credit counseling offices throughout the United States, Puerto Rico and Canada. NFCC offers free or low-cost professional and confidential in-person counseling and educational services to consumers. Local Consumer Credit Counseling Services (CCCS) offices are non-profit organizations affiliated with the NFCC. Call 800/388.2227 to find the CCCS office nearest you.

Investment

If you have time and financial knowledge, stocks and bonds may be a better choice than savings accounts or mutual funds. Each personal investment choice, however, carries different risks. Personal investing involves a lot of work and time.

Here, too, kids can get involved. They can purchase shares of a company that means something to them (a toy company, for example). They can receive the company's annual reports and follow its stock price in the newspaper every day. You might provide funds that match their stock purchases.

Seeing how investments work offers meaningful lessons about finance. Even if your family isn't able to invest directly in stocks, you can still learn about the stock market by following specific companies in the newspaper.

How Money

Banking

Financial management involves understanding and using the services that a number of institutions offer. Just as money has expanded to include credit and debit cards, financial services have changed a great deal over the past 30 years.

In the past, people only had to know where to find the corner bank and how to open a passbook savings and checking account.

Today, the local Automated Teller Machine (ATM) is often part of a large, sometimes nationwide, financial services organization. Nonetheless, the basic services these organizations offer to help you manage your finances are fundamentally unchanged and familiar, and you should teach your children about these services. The role of banks and credit unions is particularly important. These organizations provide the basic services that most families need.

Works

and Who Can Help It Work For You

Checks

Most people write checks to pay their bills. This means they have a checking account with a bank or credit union. They deposit money in the account or have their employer do it for them, and then they write checks for money they owe. Some checking accounts have lines of credit, often called overdraft protection. (This allows you to write checks for more than you actually have on deposit. It's a form of borrowing, and it involves interest that must be paid to the bank.) Some checking accounts even pay interest or allow people to write checks at no charge, usually if a certain minimum balance is maintained.

Savings Accounts and CDs

Banks offer savings accounts or certificates of deposit (CDs), which are similar to savings accounts. With a savings account, you can put in as much money as you want and make deposits or withdrawals at any time. Interest rates paid by banks often vary.

CDs, on the other hand, represent a set amount deposited, and they pay a specified rate of interest over a specific time. While you can cash a CD earlier than the initial agreement, there is a penalty for doing so. The Federal Deposit Insurance Corporation guarantees savings accounts and CDs in member banks up to $100,000.

SUCCESS PRINCIPLE #8: Act.

Be a role model.

Give children credit for being smart by avoiding jargon, slang, or buzz words when talking to them about the financial services that you use. Using the correct names for financial services helps children learn and hear terms in their proper environment.

Show your children the steps to take when making a transaction. Get them involved in the financial process. Let your children help you keep receipts in a special place or monitor family savings.

Charge Cards and

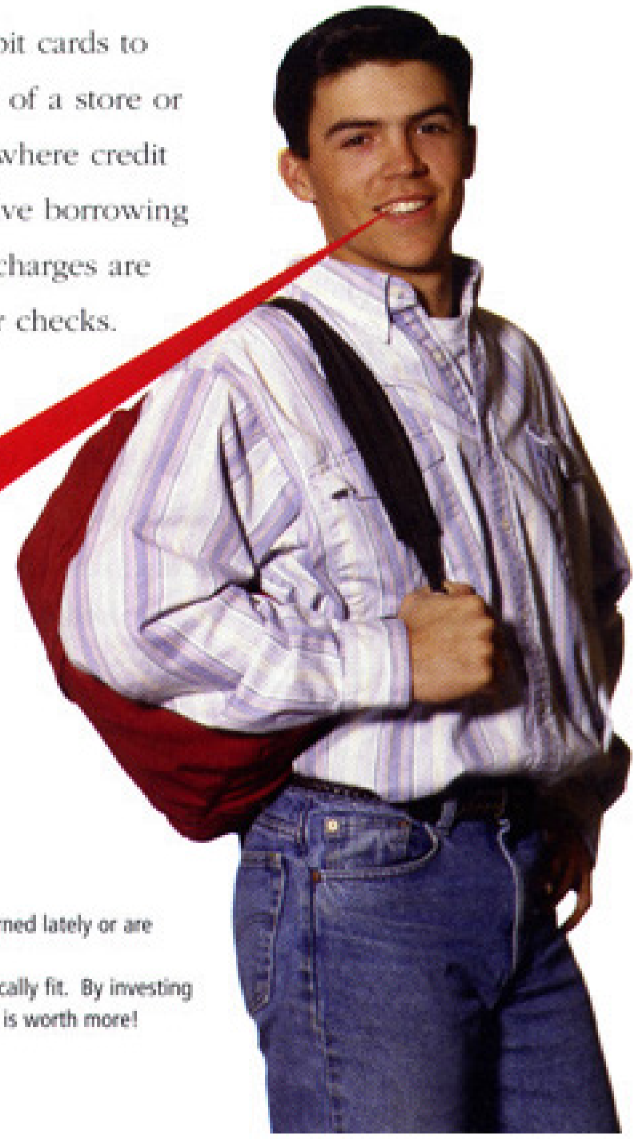
Charge and credit cards allow people to make purchases now and pay for them later. However, there are important differences between charge cards and credit cards.

Charge cards must be paid off in full at the end of every month. Credit card balances can be paid off in installments over many months, or even years.

Charge cards and credit cards offer flexibility and convenience. It is important, however, to make timely payments. If you fail to do so, you run the risk of receiving a bad credit rating or of experiencing other more serious difficulties.

Debit Cards

To pay for purchases, people are increasingly using debit cards to transfer money from a checking account to the account of a store or service provider. You can use these cards at locations where credit card logos are displayed. Since debit cards do not involve borrowing or lending, there is no credit involved, and no interest charges are made. Many people use debit cards in place of cash or checks.



SUCCESS PRINCIPLE #9: Persevere—Change often happens reluctantly.

Don't give up on fiscal fitness. Ask yourself what skills your kids have learned lately or are trying to learn. Learning is a continuous process.

Tell them that they know more now and have invested time becoming fiscally fit. By investing time to know more about your personal finances, your bank of knowledge is worth more!

Credit Cards

Brokerage Accounts

People buy stocks and bonds through stock brokers. Many brokers also offer financial planning advice and sell a number of financial products. These products include mutual funds -- professionally managed portfolios (assortments) of stocks and bonds -- CDs, and insurance policies. Stock brokers also help people manage their money through cash management accounts.

Store Credit Purchases

Many stores allow customers to buy on credit and settle accounts periodically, usually every month. Stores and retailers charge for extended credit terms.

Credit Bureaus and Consumer Credit Files

Companies called credit bureaus keep track of consumers' outstanding debts. Stores, banks and other financial institutions have access to these files. You can also access your own credit files. (See below.) A poor credit rating can keep you from getting more credit in the future. This can make it difficult to buy an automobile or a home, or even to obtain a credit card.

Your **Credit Bureau** *Files*

Bureaus that maintain credit files must, by law, make them available to the individuals on file. You can obtain a copy of your credit file from Experian (formerly TRW), 800/520.1221, Equifax Information Service Center, 800/685.1111, or TransUnion Corporation, 800/851.2674.

Values and Money

Lifetime Family Financial Security

Gaining an appreciation for, and then control over, your financial resources empowers you as an individual and as a family member.

In its simplest sense, family financial planning involves keeping a list of income and expenses that helps establish and build savings. A solid financial plan requires that you and your family understand the results of your actions. You must all appreciate the role that finance plays in a family's system of values and the fact that a family's values help determine its financial well-being.

Good planning and attention to spending and saving can help your family prosper and provide the opportunity to strengthen values and concentrate on other, non-financial areas of life. Once you have a good idea of your family's financial goals and can express those to your kids, you can start to use money in ways that will further your own values.

Instilling values and a strong sense of self-worth in your kids involves more than just encouraging and promoting money awareness and financial responsibility. It also requires development of sound values that can reinforce feelings of individual self-esteem. Such feelings can facilitate spending and savings habits that will allow the people in your family to lead meaningful lives.

If this booklet has helped you appreciate and get in touch with those values and convey them to your kids, it has served its purpose.

Values Quiz

Your kids will hear a lot about money at an early age. To make sure there isn't any confusion, you can a make a game of discussing the following statements with them. Ask whether they've heard these statements before and what they think the statements mean:

- **He's money mad.**
- **He's only out for money.**
- **Money isn't everything.**
- **She's lucky; she doesn't have to work.**
- **Money doesn't grow on trees.**
- **Money makes money.**
- **I can never understand anything about money.**
- **I've been rich and I've been poor. Rich is better.**

Money is a constant in your family's life, yet money itself is in a constant state of change. Beads, shells, livestock, gold, eggs, drums: All have been considered *money* at different times in different cultures.

In the past, folding money seemed unchanging. Now it's becoming almost as outdated a form of money as livestock.

Cash and checks make up most of the money you use. But there are faster and more convenient ways to pay.

Credit, debit and electronic cash products are displacing cash and checks. You will be able to choose how, when and where to use these new forms of money. It will make paying for goods and services easier for you.

As it evolves, money will become more versatile, and you and your family will start to think of cash, credit and debit in new ways.

So, because money is changing, you need to give your kids a good understanding of how to handle money now...and in the future.

SUCCESS PRINCIPLE #10: Reap the rewards.

Use the journey to fiscal fitness as an opportunity to be closer to your family.

Celebrate every success. Often we put off celebrations because other activities come up. Share an ice cream, give an extra hug, or write notes to your kids and put them in their lunch. Small efforts typically get better results than big ones when you want to manage day-to-day behavior.

Start out with these principles when your children are young. Your lives will never be the same.

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DESIGNED BY GENERATOR

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